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SIPDIS

SENSITIVE

STATE FOR H PASS TO CODEL SHELBY
STATE FOR WHA/CEN, INL/LP, DRL/PHD, EB AND CA
STATE PASS AID FOR LAC/CEN

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TAGS: [OREP](#) [ECON](#) [ETRD](#) [EFIN](#) [PREL](#) [PGOV](#) [PHUM](#) [HO](#)

SUBJECT: SCENESETTER FOR CODEL SHELBY'S JUNE 28 - 30 VISIT
TO HONDURAS

REF: STATE 129789

1. (U) Summary: Post welcomes the visit of CoDel Shelby to Honduras June 29-30. Honduran President Ricardo Maduro, two-and-a-half years through his constitutionally-mandated single four-year term, faces a difficult task leading one of the poorest countries in Latin America. However, there have been several positive economic developments in recent months, including the signing of an agreement with the IMF in February, the negotiation of \$147 million of debt forgiveness from Paris Club creditors in April, and Honduras' selection as one of sixteen countries eligible for assistance under the USD 1 billion Millennium Challenge Account.

2. (SBU) Bilateral relations between the U.S. and Honduras are excellent. Honduras' support for the Global War on Terrorism is steadfast, and the Government of Honduras (GOH) is among the group of nations that sent troops to Iraq in support of Operation Iraqi Freedom, although these troops have since returned. Honduras was the first country in the Western Hemisphere to sign and ratify an ICC Article 98 Agreement with the United States. Honduras also introduced a UN Commission on Human Rights (UNCHR) resolution on Cuba, which passed April 15. End Summary.

Economic Overview

3. (U) Honduras, with a per capita income of USD 950, is the third poorest country in the Western Hemisphere, ahead of only Nicaragua and Haiti. The economy is growing, at an estimated 3.2 percent in 2003, but only slightly faster than the rate of population growth. Social indicators are improving, but two-thirds of all Hondurans live in poverty, and average education levels are very low.

4. (U) Historically, industrial development in Honduras has been limited, and the economy has been dependent on exports of coffee and bananas. In the past fifteen years, however, the economy has been diversified, with the development of non-traditional exports such as cultivated shrimp, melons, tourism, and the establishment of a booming maquila industry (primarily, assembly for re-export of textiles and apparel). Investment incentives aimed at attracting foreign capital in export industries have been introduced. In recent years, the coffee industry has suffered from low world prices, and the banana industry was severely damaged by Hurricane Mitch in 1998. Banana production has yet to reach pre-Mitch levels, and coffee and bananas now account for less than 15 percent of Honduran export earnings.

5. (SBU) Despite the recent economic diversification, there continues to be a large subsistence farmer population with few opportunities other than illegal immigration to the U.S. Furthermore, the Honduran government's desire to attract new types of foreign investment has been hindered by the stagnant economy and a wide range of investment climate and competitiveness problems.

6. (U) Family remittances from Hondurans living abroad, particularly the U.S., grew by 19 percent to USD 860 million in 2003, and will soon pass the maquila sector as the country's largest source of foreign exchange. The U.S. is Honduras, largest trading partner. The roughly 150 U.S. companies that do business in Honduras constitute the largest block of foreign direct investors.

IMF Agreement and Debt Relief

7. (U) In February, after almost two years of negotiations, the Maduro Administration signed a Letter of Intent with the International Monetary Fund, which was later approved by the IMF's Executive Board, for a new three-year arrangement for Honduras under the Poverty Reduction and Growth Facility (PRGF). The IMF expects the GOH to reach its Heavily Indebted Poor Countries (HIPC) completion point by 2005 with

good PRGF implementation. In April, Paris Club participating creditors and a Honduran delegation led by the Minister of Finance Arturo Alvarado reached agreement on a restructuring of approximately USD 360 million of Honduran debt. The deal leads to the immediate cancellation by Paris Club creditors of USD 147 million in payments falling due from January 1, 2004 to June 30, 2005 (the consolidation period), consistent with the implementation of the enhanced HIPC Initiative. This treatment is expected to reduce debt service owed to Paris Club creditors from USD 405 million to USD 49 million during the consolidation period, once additional payment deferrals are added to the cancellations. Honduras has committed to devote resources freed by this treatment to priority areas outlined in the country's poverty reduction strategy.

----- The Importance of CAFTA -----

18. (SBU) The Honduran government, along with El Salvador, Guatemala, and Nicaragua, reached agreement on the terms of the U.S.-Central American Free Trade Agreement (CAFTA) in December 2003; Costa Rica closed its negotiations in January and the Dominican Republic negotiated its market access chapters in March. The agreement was signed by trade ministers of the participating countries (Ambassador Zoellick of USTR signed for the U.S.) in Washington on May 28. The agreement now awaits ratification by the Congresses of the participating countries. The Honduran government and private sector are disappointed that the U.S. Congress will not ratify the agreement before the U.S. elections, and are nervous that a prolonged delay may follow the elections as well.

19. (SBU) Maduro's team is hoping that CAFTA will lead to faster economic growth and serve as a catalyst to spur regional economic cooperation and integration. The CAFTA agreement is strongly supported by the Honduran private sector, especially the textile and apparel industry, where CAFTA is perceived to be absolutely vital to the survival of the sector in Honduras after worldwide quotas are eliminated in 2005. The CAFTA agricultural chapter will liberalize agricultural trade gradually while protecting Honduran farmers from sudden disruptions caused by subsidized imports. The agreement also will spur modernization in government procurement and services, and will help lock in the GOH's structural reforms in areas such as telecommunications. So far in 2004, Honduras has already received about USD 200 million in new foreign investment as a result of CAFTA. While the agreement will require some politically sensitive changes to legislation and there is a small, but vocal, leftist opposition led by the Popular Block, which includes NGOs, unions, and a leftist political party, Honduran ratification is expected to be relatively easy.

----- Millennium Challenge Account Eligibility -----

110. (SBU) In May, Honduras was chosen as one of sixteen countries eligible (out of 75 considered) to receive assistance under the USD 1 billion Millennium Challenge Account (MCA). Countries were selected based upon past and current policy performance in the areas of governing justly, investing in their own people and promoting economic freedom. In early June, representatives from the Millennium Challenge Corporation (MCC) visited Honduras and met with top GOH officials, members of civil society, and the private sector. The GOH is already actively involved in the MCC process, having formed a top-level team and prepared a draft proposal for USD 200 million, focusing on highway infrastructure and integrated rural development. President Maduro is fully engaged on this issue and has made it clear that negotiation of a compact with the MCC is a top priority in the months ahead. MCC representatives were impressed with the Honduran efforts so far and are optimistic that Honduras may be one of the first countries to receive MCA assistance.

----- Terrorist Financing and Money Laundering -----

111. (SBU) Honduran cooperation on counter-terrorism finance is strong. The Honduran Banking and Insurance Commission (CNBS) promptly sends freeze orders to the entire regulated financial sector each time the U.S. Executive Order lists are amended. The financial sector, particularly the commercial banks, promptly undertake the requested searches for accounts by terrorist entities. To date, no terrorist funds have been found in the Honduran financial system, and Post believes this is the sole reason that the Government of Honduras has not yet frozen any funds.

112. (SBU) The GOH has made considerable progress in the fight against money laundering since the implementation of a

much-improved law against money laundering, approved in early 2002. The GOH established a Financial Information Unit (FIU, similar to our FinCEN), soon after the law came into effect. A small U.S. Treasury Department project provides technical assistance to this unit and to the police units responsible for investigating and prosecuting financial crimes. This work has already resulted in strengthened accountability by the banking sector in identifying and reporting suspicious transactions, and the first conviction and forfeiture under the new money laundering law, which took place in April.

Political/Military Issues

13. (U) Honduras has a civilian Minister of Defense (MOD) and a Chief of the Joint Staff who heads the Honduran Armed Forces (HOAF). In January of 1999, the constitution was amended to abolish the position of military commander-in-chief of HOAF, thus codifying civilian authority over the military. Civilian control over the HOAF is complete and civil/military relations are good. This transition has resulted in greater transparency and fiscal accountability. The HOAF has a new focus on trans-national threats, including counter-terrorism, narcotrafficking, and combating international criminal organizations. The HOAF is interested in establishing an ability to further increase its participation in international peacekeeping operations. Honduras also stands ready to participate in a regional arms "rationalization" process, but has announced that it will not negotiate on a bilateral basis.

14. (SBU) President Maduro is a solid supporter of the U.S. on the Global War on Terrorism. The GOH has responded quickly to all USG requests regarding terrorist threats and financing, although to date, no terrorist assets have been found in Honduran financial institutions. Honduras is a party to all but three UN and OAS counter-terrorism conventions (the remaining three are awaiting publication in the Honduran federal register) and has also been aggressive in upgrading port security. Honduras was also the first country in the Western Hemisphere to sign and ratify an Article 98 Agreement with the United States.

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Iraq, Haiti, and Other Key Foreign Policy Goals
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15. (SBU) The GOH is very supportive of U.S. foreign policy goals, including the reconstruction of Iraq. In support of OIF, the GOH deployed some 370 troops to the vicinity of An Najaf as part of the Spanish Brigade operating under the Polish Division. However, following Spain's decision to withdraw its troops, Honduras did likewise. The GOH has stated this decision was based on a U.S. request that Honduras consider expanding its troops' mandate in Iraq to participate in offensive combat operations. Secretary Powell, CJCS GEN Myers, and Secretary Rumsfeld all visited Honduras last year to thank the GOH for its support of OIF. Their visits were well received and provided important political support for Maduro's Iraq policy. As in most of the region, the general public overwhelmingly opposed the Honduran deployment. While Honduras has left Iraq, the GOH is considering deploying troops to Haiti in support of UN peacekeeping operations there. Honduras is also very supportive at the UN, sharing our views on resolutions covering such key issues as human rights, human cloning, and the Middle East. Honduras also introduced a UN Commission on Human Rights (UNCHR) resolution on Cuba, which passed April 15.

Soto Cano Air Base - Joint Task Force Bravo

16. (SBU) About six hundred U.S. service men and women and fourteen civilian DOD employees are currently stationed at Honduras' Soto Cano Air Base under the command of the Combatant Commander, U.S. Southern Command (SOUTHCOM) as Joint Task Force Bravo. In 1954, the USG and GOH signed a Bilateral Military Assistance Agreement that set forth their intention to work closely together to foster peace and security in the Western Hemisphere. The ICC Article 98 Agreement with Honduras is therefore a particularly important accomplishment and enables our military forces to continue to work together in such areas as disaster relief, joint training exercises, and counternarcotics missions.

Counternarcotics

17. (U) Honduras' geography places it squarely in the middle of a major illegal drug trans-shipment zone, and the trans-shipment of cocaine through Honduras by air, land, and maritime routes continues. However, this trade has now begun to face significant disruptions. In 2003, overall seizures

in Honduras of approximately 6,000 kilos were higher than the past five years combined, and in 2004 Honduras has already seized some 3,854 kilos of cocaine.

18. (SBU) Corruption within the police, Public Ministry (prosecutors), and the judiciary remain a primary impediment to successful law enforcement cooperation. However, the GOH has moved forward with the implementation of new units in support of the strengthened Money Laundering Law, which was passed in 2002. The National Council for the Fight Against Drug Trafficking (CNCN) has renewed its commitment to lead the country's counternarcotics efforts. Available funds to implement a government approved master counternarcotics plan, though, remain severely limited.

Border Relations

19. (SBU) Honduras has land border disputes with El Salvador and Nicaragua and some of its seven maritime neighbors. Maduro has been personally engaged with his Presidential counterparts to address these issues. The Gulf of Fonseca on the Pacific coast has been a particularly difficult point. A 1992 International Court of Justice (ICJ) ruling laid out a shared area of control in the Gulf of Fonseca and established the land border between Honduras and El Salvador, although El Salvador has been slow to implement the ruling. In September 2002, El Salvador requested a revision of the 1992 ICJ ruling. In December 2003, the ICJ ruled against the Salvadoran appeal, bringing an end to the case. The Organization of American States (as a neutral third party) is providing both nations technical assistance to help them implement the non-disputed elements of the ICJ's ruling.

20. (SBU) On the Caribbean coast, Honduras and Nicaragua have a long-standing maritime border dispute over the 15th parallel. In the past, the dispute has threatened to derail trilateral counternarcotics operations. In 1999, Honduras provoked Nicaraguan retaliation when it signed a maritime treaty with Colombia recognizing the 15th parallel as its maritime border. Nicaragua subsequently filed an ICJ case over the maritime border and, more importantly, in 1999 slapped a punitive 35 percent tariff on Honduran goods. This tariff remained in place until April 2003 despite a Central American Court of Justice ruling that it was illegal. Only after Honduras responded with a retaliatory tariff, threatening Nicaraguan exports, did Managua rescind the tax. Cuba also recently announced it would suspend negotiations with Honduras over a maritime boundary agreement near completion due to the GOH's introduction of the UNCHR resolution on Cuba.

Port Security

21. (U) The GOH has taken a very pro-active stance in addressing port security issues and is poised to meet the International Maritime Organization's (IMO) July 1, 2004, deadline to certify its ports as meeting the new, more stringent port security standards under the International Ship and Port Facility Security Code (ISPS) and Maritime Transportation Security Act of 2002. Puerto Cortes is the largest port on the Caribbean side of the Central American isthmus and currently provides container service to the U.S. market, not just for Honduran exports, but also for goods from Guatemala, El Salvador, and Nicaragua. The National Port Authority (ENP) has invested almost \$10 million in port security enhancements (the bulk of the sum was in severance payments to its aged and unqualified union security workforce).

22. (U) The GOH hosted a successful visit (the first in the Western Hemisphere) of a U.S. Coast Guard (USCG) port security program team in mid-June. The team came to assess Honduras' implementation of the ISPS. It reviewed security practices at five national ports, met with the national commission on port security, and discussed Honduran port security regulations with the newly created (per the ISPS) national port security authority. The USCG team reported that it had identified several very innovative and efficient security practices that it would carry back to the port facilities in the U.S. as "best security practices". The USCG team also lauded Honduras for being a port security leader for hosting the first USCG verification visit in the region.

Supreme Court and Judicial Reform

23. (SBU) In 2000, the GOH initiated substantial judicial reforms intended to allow the Supreme Court to develop into an independent branch of power, unlike any of its predecessor courts since democracy was restored in 1982. While the new

court is pro-reform in orientation and has fought for its prerogatives, its performance of late under the leadership of its President, Vilma Morales, has been a disappointment. There continues to be a high level of political manipulation in the court's proceedings and the issue remains open as to whether or not it can become a fully independent and co-equal branch of political power, consistent with the separation of powers provision in the Honduran Constitution. The established political order is fighting that prospect with vigor. In fact, the National Congress seized the political opportunity to introduce legislation that would amend the constitution to give itself the power to interpret the constitutionality of the laws it passes. The Supreme Court ruled in May 2003 that the proposed amendment was unconstitutional, which sparked a tense confrontation between the Supreme Court and Congress. The issue receded until recently when Congress passed a new amendment to the Constitution again granting Congress the right to interpret the constitutionality of laws it passes. A legal challenge to this amendment is expected in the near future, although the amendment has yet to be printed in the federal register and therefore is not yet law. Judicial corruption remains an ongoing problem and the President of the Court has not acted decisively to root out and punish bad judges.

Public Security and Human Rights

124. (SBU) Upon taking office on January 27, 2002, President Maduro's first act was to fulfill his main campaign promise -- a zero tolerance campaign against the country's intolerably high crime situation. He deployed more than 5,000 soldiers to the streets to support the police. The public responded enthusiastically. However, after initial success of establishing a visible police presence, violent crime, particularly homicides, continued at a high rate, although there is evidence that the murder rate has marginally fallen in the last six months. The U.S. is helping the Maduro government establish an anti-kidnapping unit, increase intake/training of police recruits, create a model tourist police force, boost its counternarcotics efforts, expand the Frontier Police, and improve prosecutorial and forensic capacities. The country's geographic position makes it an obvious strategic transit point for narcotics trafficking, alien smuggling operations, trafficking in persons, and other organized crime activities.

125. (SBU) Extrajudicial killings, especially of children/young adults since 1998, have been a source of serious concern and only recently has the GOH begun to take steps to investigate the hundreds of unsolved cases. Human rights groups regularly accuse former security force officials and the business community of colluding to organize "death squads" to commit these summary and arbitrary executions. On April 5, 2003, 68 persons, 61 of them gang members, were killed in a violent incident at El Porvenir prison near La Ceiba. Reports produced by the Public Ministry, a Special Commission of the Honduran National Council for Internal Security (CONASIN), and the Human Rights Commissioner put the blame for the vast majority of deaths on government security forces (police and military under police command) and non-gang member inmate trusties. On May 17, 2004, a fire at the Granja Penal prison in San Pedro Sula claimed the lives of another 104 gang members. Although it appears GOH authorities were not complicit in this event, timely assistance to inmates was withheld over security concerns that could have prevented many deaths.

126. (SBU) While Honduran labor law is deficient in some areas with respect to International Labor Organization core conventions, the main issue for the protection of labor rights, including freedom of association and collective bargaining, is the effective enforcement of existing laws. There are serious problems with child labor in several industries, particularly melon, coffee, and sugar cane (but not in the maquila sector), as well as in the informal economy, and trafficking in persons of women/children for commercial sexual exploitation in the U.S., Central America, and Mexico. USAID and Peace Corps have both been involved in HIV/AIDS prevention.

Corruption and Rule of Law

127. (SBU) Honduras remains one of the most corrupt countries in the Western Hemisphere and was recently ranked 106 out of 133 countries surveyed by Transparency International, an NGO that tracks international corruption issues. Only Ecuador, Haiti, and Paraguay scored lower in the Western Hemisphere. U.S. policy to combat endemic corruption has struck a nerve in Honduras, especially any mention of our visa revocation authorities. Maduro has stated he is willing to address corruption, even if it will cost him political support within his party, but real achievements to date have been lacking. Of particular concern are individual judges and prosecutors

who solicit and/or remain open to offers of bribes. The Attorney General's office has been unwilling, or unable, to prosecute high-profile cases, with the notable exception of several sitting congressmen recently accused of drug trafficking and other offenses. The selection of Ovidio Navarro as the new Attorney General was also a clear political move orchestrated by those with a direct interest in the status quo. Given the scope of the problem, any public discussion about the country's pervasive corruption is a positive development.

USAID Programs

128. (SBU) The Central America and Mexico (CAM) Regional Strategy focuses bilateral and regional USAID investment on the three performance "arenas" of Ruling Justly, Economic Freedom, and Investing in People, and is closely aligned with the Millennium Challenge Account (MCA). USAID supports the Ruling Justly objective by increasing the responsiveness and accountability of public institutions, while also building on successful municipal development programs to create better models for governance, justice reforms, and transparency and participation. In the arena of Economic Freedom, there is a concerted focus on trade policy and preparations to ready Honduras' participation in the CAFTA and FTAA. USAID strives to bridge agricultural production in rural areas with relatively higher value processing and marketing enterprises in urban centers. The integrated natural resource management program emphasizes sustainable land and water-use, biodiversity, and reduced disaster vulnerability. Also, to support the Investing in People objective, the health program aims toward improving reproductive health, family planning, child survival, prevention of HIV/AIDS and other infectious diseases, and household food security. Seeking a better-educated Honduran work force through expanded access at the pre-school, middle school, and upper secondary levels (grades 10-11) is done using alternative delivery systems and implementing the Centers for Excellence in Teacher Training (CETT) Presidential Initiative. USAID is also assisting GOH efforts to develop quality education standards, testing, and evaluation.

Consular Issues

129. (SBU) Approximately 800,000 Hondurans live in the U.S., both legally and illegally, a fact that places immigration issues high on the bilateral agenda. (The population of Honduras is approximately 6.5 million.) There is deep appreciation for the U.S.'s extension of Temporary Protected Status (TPS) in the U.S. and interest in possible congressional action on the proposed Nicaraguan Adjustment and Central American Relief Act (NACARA), which would give immigration parity for Hondurans. With approximately 11,000 American citizens residing in Honduras (this includes American citizens that also hold Honduran citizenship) and many thousands visiting Honduras annually for tourism and business, American Citizen Services are a key part of the Embassy's work.

130. (SBU) Since 1995, 35 American Citizens have been murdered in Honduras. There was not much progress on most of these cases until 2003, but there have now been 20 convictions in nine cases. Some progress has been made on extradition cases involving American Citizens residing in Honduras who are wanted for felonies in the United States.

Embassy Tegucigalpa

131. (SBU) Embassy Tegucigalpa is a medium-sized post, employing 140 U.S. citizens and 300 Hondurans among 20 USG agencies. The Peace Corps program, with more than 245 volunteers, is one of the world's largest, and the USAID mission has a FY04 budget of USD 45 million. The Mission maintains a Consular Agent in Honduras' second city and industrial center, San Pedro Sula.
Palmer